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SUBJECT: CODEL SCHIFF ALGERIA SCENESETTER

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¶1. (SBU) Embassy Algiers welcomes the visit of Representative Adam Schiff and his delegation on June 30 and July 1. Algeria is an important front in the struggle against violent extremism and against Al-Qa'ida in particular. Our primary goal is to help reduce the threat that violent extremists pose to the Algerian government and society, and consequently in the region. Algeria is a major source of oil and gas for the United States and Europe, and \$20 billion in two-way trade makes it our second-largest trading partner in the Arab world after Saudi Arabia. Although Algeria has made significant progress in recent years rebounding from more than a decade of terrorism and civil strife, a state of emergency in place since 1992 limits freedom of association and hinders civil society development. And while the country is politically stable, there was some controversy over President Bouteflika's April 2009 reelection to a third term, made possible by a constitutional revision that eliminated presidential term limits. The economy has liberalized somewhat since 2004, but recent government pronouncements signal a return to protectionism and economic nationalism. More than two-thirds of the population is under the age of 30, and lack of economic diversity has resulted in high unemployment and limited opportunity for this restive young population. Your visit is important to our bilateral relationship because the Algerians warm to high-level contacts that extend beyond discussions of security and counter-terrorism.

THE ALGERIAN SOCIO-POLITICAL LANDSCAPE

¶2. (SBU) A persistent terror threat by what is now known as Al-Qa'ida in the Islamic Maghreb (AQIM) generates residual instability and keeps the government heavily focused on security, in turn slowing reform, development and investment. Parliamentary and local elections in 2007 and 2008 showed increasing public apathy and mistrust of democratic institutions. A belief among Algerian youth that they lack political opportunity and social mobility increases disenchantment with the system and leaves them vulnerable to extremism, even as religious conservatism is on the rise. New foreign investment restrictions threaten to stall further economic reform and diversification. While U.S. companies are very involved in Algeria's hydrocarbons sector, they have found it difficult to launch other investments here, including ones that would provide jobs and export opportunities.

¶3. (SBU) As many observers anticipated, President Bouteflika was the victor in the April 2009 election, allowing him a third term in office after a November 2008 revision of the constitution removed presidential term limits. Many Algerians asserted that the election was carefully orchestrated by the government; some called it a disaster for

democracy, while others said it was essential for stability. Algerians were fascinated by the November 2008 U.S. presidential elections and made envious comparisons to their own electoral process. Our message has been that while the November constitutional amendments and the April election were internal Algerian matters, we emphasize the importance of transparent and fair electoral processes and hope for continued economic reform, and the development of democratic institutions.

OUR ENGAGEMENT: SECURITY AND SOFT POWER

¶4. (SBU) Since late 2006, AQIM's targets have included U.S. and Western interests in the region. The Algerian authorities generally do not discuss our extensive bilateral counter-terrorism cooperation publicly, and remain deeply suspicious of any foreign military presence on their soil. Despite that suspicion, in late 2007 Algeria proposed limited joint military engagement activities with the U.S., leading to 2008 naval and air force training exercises. We expect more joint dialogues and exchanges in the future, but the process is slow-moving. A new FBI office in Algiers, the beginnings of police and judicial training, and a Mutual Legal Assistance Treaty (MLAT) we hope to conclude in 2009 are the next steps in broader law enforcement and counter-terrorism cooperation.

¶5. (SBU) In recent years, the Middle East Partnership Initiative (MEPI), Embassy Public Diplomacy programs, and cooperation programs in the areas of science and technology have been central to our "soft" counter-terrorism work. In addition to promoting economic development and prosperity, a more open Algerian economy and greater employment opportunity should also reduce the appeal of extremism and thus promote regional stability. Accordingly, we have restarted the Fulbright program, significantly increased exchanges and expanded engagement in education. English-language programs in particular have proven popular with both the Algerian government and citizenry, and we use them as tools to counter unemployment and provide an alternative to extremism, as well as in promoting U.S. values. The U.S. Department of Treasury's Office of Technical Assistance (OTA) provides expert advice in areas such as tax reform, bank regulation and institutional oversight, and anti-money laundering. We are seeking to conclude an Open Skies agreement and a customs mutual assistance accord in 2009. We have also increased engagement in areas such as the peaceful use of nuclear technology, export controls and border security, and a number of environmental, science and technology fields.

BIG TICKET ITEMS, AND WHERE WE ARE HEADED

¶6. (SBU) Algeria's oil and gas production has generated nearly USD 140 billion in foreign currency reserves, but volatile energy prices are causing the Algerians to become circumspect again about their public spending. While vast amounts of money have been spent recently on infrastructure projects, many of the related construction jobs have been temporary or given to foreign workers. The government also continues to subsidize basic staples to protect the population from price shocks. We have encouraged Algeria to make the changes necessary to accede to the World Trade Organization, but recent government policy announcements that restrict foreign investment and imports to Algeria make accession increasingly less likely in the near- to mid-term. Thus, while we seek new opportunities for U.S. business in Algeria as well as investment opportunities outside of the hydrocarbons sector, we are cautious about the business climate here and urge the Algerians to create a predictable business environment.

¶7. (SBU) The Algerians are waiting to see whether a new American administration will bring a change in U.S. policy

regarding the Western Sahara. Algeria will not reopen its long border with Morocco absent progress on the issue, nor

will it support a resolution that does not seriously address the concept of an expression of self-determination by the Sahrawi people.

18. (SBU) Our primary goal in Algeria is to see AQIM and other violent extremists no longer threatening the Algerian government and society. Algeria could also play a constructive role in the equitable resolution of conflicts in the Western Sahara, the Sahel and the wider region. We would like to see Algeria move toward transparent political/economic processes and strong institutions under the rule of law. It could also be better integrated into the global economic system, especially with a more dynamic internal market and a receptive investment climate. All of these goals would be supported by expanded U.S.-Algeria political, economic, commercial, and cultural contacts, and from increased high-level visits such as your delegation.

DAUGHTON